HOUSING MARKET OUTLOOK

Saguenay

Canada Mortgage and Housing Corporation

www.cmhc.ca

FALL 2006

Economic overview

The last two issues of Housing Market Outlook – Saguenay reported extensively on the economic uncertainty looming over the Saguenay census metropolitan area (CMA). Unfortunately, at the timing of writing, the situation had not changed much.

But the news is not all bad. At this time, the area is fully benefiting from the ongoing work to widen Highway 175 to four lanes, which should continue until 2011. In addition, with the experience and expertise acquired over the years on major job sites in Quebec (expansion of the Alouette plant in Sept-Îles, construction of various hydroelectric power stations, etc.), several companies in the area now stand out and have the necessary knowledge to bid on major projects in Quebec. Currently, it is the Hydro-Québec Péribonka 4 site (the number of jobs on this site is at its maximum in 2006 and will subsequently decrease) that is benefiting from the regional engineering sector, as several companies are active there. Consequently, with these two major projects and a few others elsewhere in Quebec, the number of jobs in the Saguenay CMA should grow by about 5 per cent in 2006.

As well, even though an agreement was signed between the Canadian and U.S. governments concerning the settlement of the softwood lumber dispute, the Saguenay–Lac-Saint-Jean forest industry is still experiencing difficult times. The 20-per-cent reduction in stumpage fees decreed by the Quebec government is also starting to be felt, and layoffs—although temporary in some cases—are increasing. So far, these layoffs have occurred mainly in the Lac-Saint-Jean urban centres, but the shock wave is slowly extending to all regions across Quebec, and the Saguenay CMA will be no exception. The Quebec government is even studying the possibility of reducing stumpage fees below the levels proposed in the Coulombe report[1]. For 2007, the ills of the forest industry are therefore expected to spread to the entire area, and a decrease of 1 per cent in the number of jobs is anticipated in the Saguenay CMA.

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[1] The Coulombe report, named after the commission chair, results from the work of a commission for the scientific, technical, public and independent study of public forest management in Quebec.

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Mortgage rates

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Resale market

In the Saguenay area[2], annual sales registered through the Service interagences / Multiple Listing Service (S.I.A. / MLS)® have not stopped rising since the beginning of the current decade. Transactions went from 848 units in 2000 to 1,244 units in 2005, with each year's level beating the record from the previous year. This increase in sales took place as the supply of existing homes was steadily declining, with active listings reaching 393 units at the end of 2005, compared to 668 at the end of the year 2000. These opposing trends are somewhat surprising, and this suggests that the number of sales could have been higher if the supply of properties for sale had been greater. This is in fact what other observers of the Saguenay area real estate market are saying.

The low mortgage rates have without a doubt supported the resale market in recent years, but other factors have also fuelled demand, including the price gap between new and existing homes, the increase in the number of households aged from 25 to 34 years and, finally, the impact on the labour market of major projects like the Hydro-Québec Péribonka station.

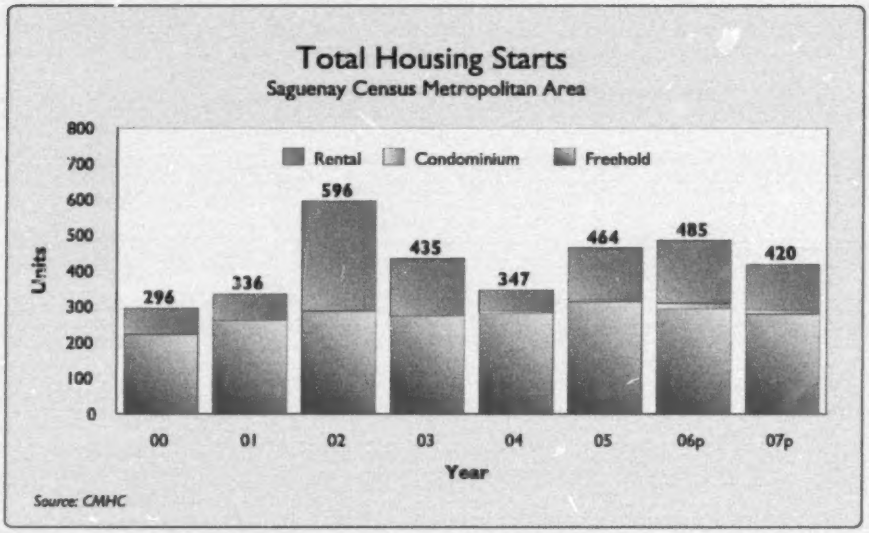
For 2006, transactions on the resale market are expected to reach 1,150 units, for an increase of 8 per cent over the record set in 2005. If the supply of properties for sale were not so limited, the decrease in transactions could be less significant, given that households who do not find what they are looking for on the existing home market turn to the new home market to fulfil their needs. Despite the recent increases, mortgage rates remain low and continue to facilitate homeownership. Finally, household formation among first-time home buyers (aged from 25 to 34 years) will grow more rapidly in 2006 and 2007, which will strengthen demand on the resale market. For 2007, the above-mentioned factors will have a similar impact on demand, and the area should register 1,125 sales, or 2 per cent fewer than in 2006.

The high sales volumes recorded in recent years, combined with the limited supply, directly affected the price of homes for sale, which rose by 9 per cent between 2004 and 2005. In the third quarter of 2006, the seller-to-buyer ratio[3], which indicates the power relationship between sellers and buyers, reached 4.2 to 1, up slightly over its lowest level, observed in the fourth quarter of 2005. Despite this small increase in the ratio, this means that sellers still have the advantage during negotiations and that the price of existing homes can be expected to keep rising at a rate well above inflation. In this context, and since there is no other indication that the number of properties for sale will rise considerably over the coming quarters, the average price of single-family homes (detached, semi-detached and row houses) should reach $120,000 at the end of 2006, for an increase of 10 per cent over 2005 ($109,419). For 2007, the market should remain tight and continue to favour sellers, although the anticipated decrease in transactions could slightly slow the growth in home prices. The average selling price of single-family homes should therefore rise by 6 per cent in 2007 and attain $127,000 at the end of the year.

[2] For the resale market, the Saguenay area includes the Saguenay CMA, along with the municipalities of Saint-Ambroise, Saint-David-de-Falardeau, Valin, Sainte-Rose-du-Nord and Saint-Charles.

[3] It should be noted that, on a balanced market, which equally favours buyers and sellers, the seller-to-buyer ratio stands between 8 and 10 to 1. A ratio below 8 to 1 signifies a seller's market, while a ratio above 10 to 1 indicates a buyer's market.

Residential construction



In the Saguenay CMA, starts have evolved irregularly since the beginning of the current decade, as they varied from a low of 296 units in 2000 to a high of 596 units in 2002. The year 2005, for its part, ended with a total of 464 starts, or 34 per cent more than in 2004. Low borrowing costs and a very tight resale market are the main factors that drove up the level of starts. It would appear that many households who could not find a property to meet their needs on the existing home market turned to the new home market to satisfy their expectations. This is a phenomenon that affects both baby boomers looking for a property that better meets their new reality (children leaving, retirement approaching, etc.) and young households wanting to access homeownership. The labour market is also having a positive impact on starts, but this effect is difficult to quantify on account of the constant fluctuations in the employment indicators for the CMA. One thing is certain, though, a comparison between the employment levels registered in the last two years with the level recorded at the beginning of the decade reveals that the situation has improved slightly. Finally, despite the fact that the CMA has seen its population decline from year to year, the number of new households is still on the rise, and this will continue to fuel demand for new homes.

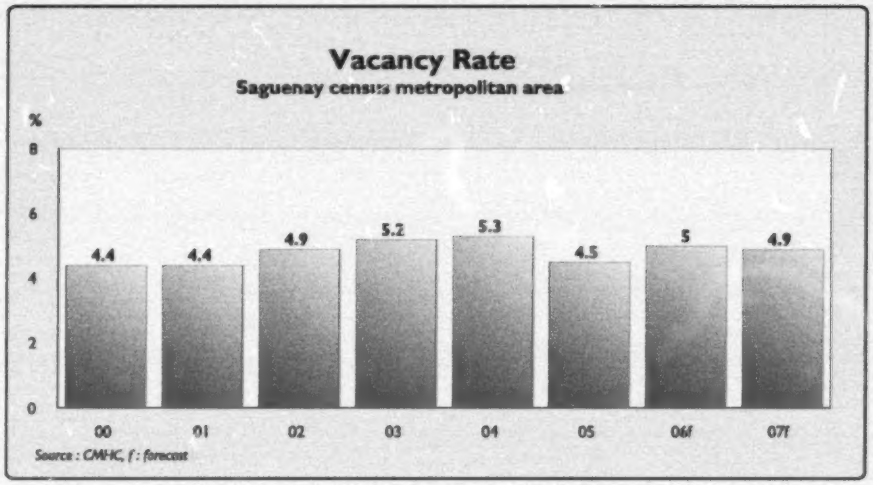
In 2006, the still favourable mortgage rates, household formation and the limited supply on the resale market will continue to have a positive impact on residential construction. In fact, the Saguenay CMA should register 485 starts, or 5 per cent more than in 2005. For 2007, there should be slightly fewer new construction sites, as a result of the shock wave created by the restructuring of the forest industry and the repercussions of the reduction in stumpage fees, and also because household formation will be less significant than in 2006. That being said, the slowdown in activity should not be very pronounced, as the other factors (mortgage rates, limited supply on the resale market, changing needs of baby boomers, etc.) will remain favourable. We therefore anticipate that construction will get under way on 420 new units in 2007 (-13 per cent).

For freehold dwellings[4], the trend has been rather stable for the past few years. Since the year 2000, around 275 houses of this type have been built annually in the Saguenay CMA. In 2005, activity was slightly more vigorous, as 315 freehold homes were started, for a gain of 12 per cent over 2004 (282 units). The low mortgage rates, the limited supply on the resale market and the desire of baby boomers to have a property that better meets their needs were the main factors that stimulated activity in this market segment. In 2006, these factors will still be at the forefront, although their impact will be slightly less pronounced. The small rise in mortgage rates since September 2005 and the growing uncertainty surrounding the forest industry should weaken demand during the second half of 2006. It is therefore expected that construction will get under way on 295 freehold homes in 2006, for a decrease of 6 per cent in relation to 2005. For 2007, the slowdown will continue, in line with the decrease in the number of new households, and freehold home starts are expected to decline by about 5 per cent to 280 units.

In the rental housing segment, the trend is somewhat different. While freehold home starts are relatively stable, rental housing construction shows significant fluctuations. Since the year 2000, starts of this type have varied from a low of 58 units in 2004 to a high of 308 units in 2002. These fluctuations are due to the adjustment, from year to year, to the growing number of retirement home projects in the area. This submarket has driven the growth in rental housing starts in the Saguenay CMA for the past few years, and 2006 will be no exception, as two existing retirement homes will be expanded in the borough of Jonquière. Considering these expansions, along with the start of construction on two public rental housing projects comprising a total of nearly 80 units, it can be expected that 2006 will be a very active year in the rental

[4] Refers to single-family houses (detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes.

housing construction sector. It is therefore anticipated that 175 rental housing units will be started in the Saguenay CMA in 2006, for an increase of 22 per cent over 2005. For 2007, a slight slowdown is expected, as construction will get under way on fewer publicly initiated housing units. However, activity will remain strong in the retirement home segment, as in the traditional rental housing segment, on account of the natural renewal of the rental housing stock in the area. In all, 130 rental dwellings should be started in 2007, down by 26 per cent from 2006.



Rental market

At the time of the October 2005 survey, the vacancy rate had gone down to 4.5 per cent, for its first decrease since the year 2000. This drop in the vacancy rate had been due to an increase (+2 per cent) in student enrolment at the Université du Québec à Chicoutimi in the fall of 2005, the creation of a new technical course in the borough of La Baie and the stabilization of the supply of retirement housing despite a growing demand attributable to the aging of the population.

The current situation is not very different from the conditions that prevailed when the last issue of Housing Market Outlook – Saguenay was published, and the factors affecting supply and demand suggest that the vacancy rate will have increased marginally by the time of the October 2006 survey. In fact, just over 100 new rental housing units will be included in the October 2006 survey, but demand should not be greater than last year on account of the continued exodus of young people. In 2004-2005, over 1,300 people left the area, and there is no indication that this figure will be any different this year. The vacancy rate should therefore reach 4.8 per cent in 2006. For 2007, supply and demand dynamics should stay relatively similar, and the vacancy rate should attain 5.2 per cent.

Forecast Summary
Saguenay Metropolitan Area
Fall-Winter 2006

	2004	2005	2006f	2005/2006	2007f	2006/2007
RESALE MARKET [1]						
MLS Sales®	1,077	1,244	1,15	-8%	1,1	-4 %
Average MLS price $ ®	100,371	109,419	120,000	10%	127,000	6 %
NEW HOME MARKET						
Starts						
Total	347	464	485	5 %	420	-13 %
Freehold	282	315	295	-6 %	280	-5 %
Condominiums	7	5	15	200 %	10	-33 %
Rental housing units	58	144	175	22 %	130	-26 %
Average price ($)						
Detached houses	145,208	149,894	151,000	1 %	153,000	1 %
Semi-detached houses	97,130	108,529	111,000	2 %	111,000	0 %
RENTAL MARKET (%)						
Vacancy Rate (october)	5.3	4.5	4.8	--	5.2	--
Average rent (2-bedroom)	459	472	483	--	493	--
ECONOMIC OVERVIEW						
Mortgage rate 1-year (%)	4.6	5.1	6.3	(5.5 - 6.5%)	1.2%	--
Mortgage rate 5-year (%)	6.2	6.0	6.7	(6.0 - 7.0%)	0.7%	--
Annual employment level	71,775	68,275	72,000	--	71,000	--
Unemployment rate (%)	10.9	10.9	9.0	--	9.5	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Saguenay-Lac St-Jean Real estate Board. Data could differe from those published previously.
f : CMHC forecasts
Sources: CMHC, SLSJREB and Statistics Canada

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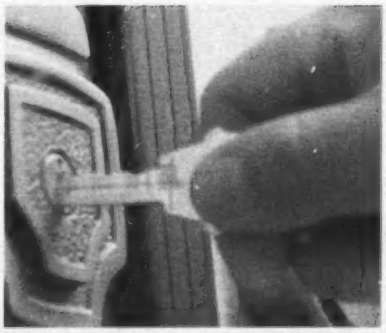

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